

Message Text

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S/S - MR. GAMMON

CIEP - MR. HINTON

WH - MR. SONNENFELDT

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TO AMEMBASSY MADRID

INFO USMISSION EC BRUSSELS

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E.O. 11652:GDS

TAGS: OVIP, ETRD, EFIN, SP - BARRERA

SUBJECT: BARRERA MEETING WITH PETER FLANIGAN

REF: MADRID 3957

1. FINANCE MINISTER BARRERA DE IRIMO, ACCOMPANIED BY FERNANDEZ ORDONEZ AND AMBASSADOR SAGAZ, MET WITH ASSISTANT TO THE PRESIDENT PETER FLANIGAN JULY 31. IN CONNECTION WITH DISCUSSION OF FACT THAT SPAIN HAS FAVORABLE PAYMENTS BALANCE WHILE UNFAVORABLE TRADE BALANCE, BARRERA SAID HE THOUGHT FOR VARIOUS REASONS GROWTH IN SPANISH EARNINGS FROM TOURISM COULD NOT CONTINUE AT PRESENT RATE. THEREFORE SPAIN SHOULD NOT DEPEND ON THESE EARNINGS TO COMPENSATE FOR TRADE DEFICIT AND MUST ESTABLISH SOLID INDUSTRIAL BASE FOR EXPORTS. THIS IS BEHIND SPAIN'S DESIRE FOR CLOSER
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INTEGRATION INTO EC. THIS INTEGRATION STILL SOME TIME

OFF, HOWEVER, AND SPAIN WISHES TO CONTINUE ITS CLOSE TIE TO US, WHICH REMAINS SPAIN'S LEADING TRADING PARTNER.

2. MR. FLANIGAN REPLIED THAT US STRONGLY SUPPORTS SPAIN'S DESIRE FOR MEMBERSHIP IN EC AND SEES NO INCONSISTENCY BETWEEN THIS AND CONTINUATION OF SPECIAL RELATIONSHIP BETWEEN SPAIN AND US. TRUE PURPOSE OF EC WAS POLITICAL UNITY OF EUROPE -- A GOAL WHICH USG HAS ALWAYS SUPPORTED. DEVELOPMENT BY EC OF SERIES OF SPECIAL DISCRIMINATORY TRADING ARRANGEMENTS IS IN A SENSE PERVERSION OF ORIGINAL PURPOSE OF EC. US CANNOT FAIL TO BE CONCERNED ABOUT

EFFECT OF THESE ARRANGEMENTS ON OUR TRADE. WE CANNOT ACCEPT THOSE INVOLVING GOOD FRIENDS, SUCH AS SPAIN, AND DISAPPROVE OF OTHERS. USG MUST MAINTAIN CONSISTENT POSITION. HOPEFULLY TOKYO GATT MEETING WOULD LEAD TO NEGOTIATIONS WHICH WOULD REDUCE EFFECT OF SUCH DISCRIMINATION.

3. BARRERA SAID HE AGREED THAT EC MIGHT BE GOING TOO FAR IN TRYING TO CREATE TRADE BLOC. SAID GOS CONSIDERED IT UNREASONABLE FOR EC TO TRY TO TREAT SPAIN IN CONTEXT OF GENERAL MEDITERRANEAN POLICY. HE ALSO HAD GREAT HOPES FOR THE FORTHCOMING TRADE NEGOTIATIONS. HE FELT THAT WHAT COULD BE ACCOMPLISHED IN TRADE FIELD WOULD DEPEND IN PART ON SUCCESS OF MONETARY NEGOTIATIONS, SINCE THESE TWO FIELDS CLOSELY LINKED. HE PROPOSED THAT US AND SPAIN HAVE AN EXCHANGE OF VIEWS ON TRADE BEFORE TOKYO MEETING. MR. FLANIGAN POINTED OUT THAT AMBASSADOR MALMGREN NOW IN MADRID FOR THAT PURPOSE.

4. BARRERA SAID US-SPANISH ECONOMIC RELATIONS VERY GOOD. ONLY PROBLEMS WERE MINOR ONES SUCH AS SOYBEANS, SCRAP, AND SHOES. MR. FLANIGAN SAID HE VERY MUCH REGRETTED ANY INTERFERENCE WITH FREE TRADE, BUT RISE IN MEAT PRICES WAS SUCH IMPORTANT ELEMENT IN US COST OF LIVING INCREASE THAT POLITICAL PRESSURES MADE IT NECESSARY IMPOSE TEMPORARY CONTROLS ON SOYBEAN EXPORTS. OPTIMISTIC PREDICTIONS FOR NEW CROP SHOULD ALLEVIATE SITUATION BY OCTOBER. RE SCRAP FLANIGAN NOTED THAT EC AND OTHER INDUSTRIAL COUNTRIES

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LIMITED SCRAP EXPORTS. US COULD NOT REMAIN ONLY DEFENDER OF OPEN MARKETS. HE HOPED US COULD NOW BECOME MORE COMPETITIVE IN SHOES IN ORDER REDUCE THREAT POSED BY IMPORTS. SAGAZ COMMENTED THAT SPANISH SHOE EXPORTS TO US LEVELING OFF WHILE EXPORTS FROM BRAZIL AND ARGENTINA GROWING. FLANIGAN SAID IMPORTS FROM SPAIN STILL GROWING SLIGHTLY IN VOLUME WHILE CHANGE IN DOLLAR-PESETA PARITY MADE INCREASE EVEN GREATER IN DOLLAR TERMS. ROGERS

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